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Report Highlights:

Post's MY 2007/08 cotton production estimate is raised marginally higher to 24.4 million bales based on the strong pace of market arrivals in central/southern India. The consumption forecast is revised lower to 18.1 million bales on high cotton prices and weak demand for cotton textiles. Exports are revised higher to a record 5.9 million bales due to strong international cotton prices.

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SECTION 1: SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

PSD Table									
Country	India								
Commodity	Cotton						(HECTARES) 1000 480 lb. Bales (PERCENT) (KG/HA)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007
Area Planted	0	0	0	0	9158	9142	0	9520	9530
Area Harvested	8873	8873	8873	9166	9158	9142	9500	9520	9530
Beginning Stocks	8764	8764	8764	8064	8264	8064	7014	7228	7014
Production	19050	19050	19050	21800	21863	21800	24500	23900	24360
Imports	400	400	400	400	400	400	400	400	400
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	28214	28214	28214	30264	30527	30264	31914	31528	31774
Exports	3450	3450	3450	4850	5100	4850	5700	5100	5850
Use	16700	16500	16700	18400	16823	18400	18700	17650	18100
Loss	0	0	0	0	1376	0	0	1350	0
Total Dom. Cons.	16700	16500	16700	18400	18199	18400	18700	19000	18100
Ending Stocks	8064	8264	8064	7014	7228	7014	7514	7428	7824
Total Distribution	28214	28214	28214	30264	30527	30264	31914	31528	31774

Note: Production figures in the table include 937,000 bales of loose cotton

MY 2007/08 Record Production Raised Marginally

The Post MY 2007/08 cotton production estimate is raised marginally higher to a record 24.4 million bales, which is 2.6 million bales higher than last year. This revision is based on strong market arrivals, which provides evidence to support a higher than anticipated crop estimate in the central and southern states (see Table 2). Market arrivals through February 23, 2008 reached 18.4 million bales (4.0 million tons) compared to 16.4 million bales (3.6 million tons) for the corresponding period last year. The Cotton Advisory Board is currently estimating the MY 2007/08 crop at 24.2 million bales¹, while estimates from various industry sources range 22 to 25 million bales (28.0 to 32.0 million Indian bales of 170 kg).

Market arrivals of cotton during the current year are very strong in the central and southern states². Current arrivals are estimated at 74,000 to 78,000 bales per day vs. 63,000 to 66,000 bales per day a year ago. With upward trending prices, farmers are reportedly holding higher stocks of seed cotton than last year on the expectation of higher late season prices. Although the pace of arrivals has started slackening, late season arrivals are expected to be stronger than last year in the states of Gujarat, Maharashtra and Andhra

¹ 31.0 million 170 kg Indian bales forecast in the January 11, 2008 meeting.

² Please refer Cotton Corporation of India website http://www.cotcorp.gov.in/current_cotton.asp for latest state wise market arrivals estimate in 170 kg Indian bales.

Pradesh. Consequently, MY 2007/08 production is expected to reach 24.4 million bales (31.2 million Indian bales)³.

Bt Cotton Supports Record Crop

The MY 2007/08 record cotton crop is attributed to a significant increase in area under Bt cotton and overall favorable weather across the country. Industry sources report that area under officially approved Bt cotton seeds during the current season galloped to 6.2 million hectares, an increase of 63 percent over last year. Some industry sources believe there is an estimated 1.5 million hectares under unapproved Bt cotton seeds⁴. Thus, Bt cotton accounted for over 80 percent of the total cotton area. The increased share of Bt cotton in overall plantings has augmented the current season's record yield by containing losses due to pests, along with the higher yield potential of hybrid Bt cotton vis-à-vis traditional varietal cotton. Industry sources also report that the new Bt cotton hybrids have higher ginning outturn compared to the traditional varietal cotton.

Prices Firm on Strong Export Demand

Domestic cotton prices have steadily firmed up since November, 2007 on strong international cotton prices despite record supplies and subdued demand by domestic mills. As Indian cotton was very competitive vis-à-vis other origins from the beginning of the Indian marketing season (October/September), cotton exporters have been very active in the market. Consequently, domestic prices have closely followed rising international cotton prices. The spot prices of commonly exported varieties are currently trading at 66 to 74 cents/lb, about 14 to 18 percent higher than last year level. Prices are expected to remain firm for the next few months as arrivals begin to taper off. However, international cotton prices will guide domestic prices during the later part of the season.

Consumption Lowered

Post's MY 2007/08 consumption forecast is lowered to 18.1 million bales based on the slowdown in off take by domestic mills due to strong cotton prices and weaker cotton textile demand. The monthly cotton consumption figures for the first four months of the marketing year (see Table 4) indicate a slowdown in consumption by the domestic industry.

Industry sources report that soft demand, both export and domestic, coupled with high cotton prices has forced several mills to lower consumption. Due to the continued strong value of the Indian rupee vis-à-vis U.S. dollar along with the currency of other suppliers, cotton yarn and textile exports have been adversely affected. The upward trend in domestic cotton prices have further eaten into the profitability and operating margins of the exporting mills. With several exporting mills forced to supply to the domestic market, cotton yarn and textile prices in the domestic market have been depressed. Industry sources also report a slowdown in growth in domestic demand for textiles and clothing. Consequently, Post's consumption forecast is revised lower to 18.1 million bales, marginally lower than last year.

Exports Revised Higher on Strong International Prices

Post's MY 2007/08 export forecast has been raised to 5.9 million bales due to strong international cotton prices, up one million bales from last year's record level. Due to the

³ Refer Table 2 for state wise cotton area and production estimates. Area estimates are based on the latest state wise figures compiled by the Ministry of Agriculture.

⁴ Compared to 2.0 million hectare under unapproved Bt cotton seeds in 2006/07. See Gain report IN7041 for more information.

record crop and weak domestic off take, Indian cotton continues to be very competitively priced vis-à-vis comparable cotton from other origins.

Market sources report that about 4.7 to 5.1 million bales have been contracted for exports for shipment through March 2008. Of this amount about 3.9 to 4.3 million bales have been shipped through the third week of February, mainly for China, Pakistan, Turkey, Bangladesh and South Asian countries. Industry sources report that cotton exporters, including international merchants, are currently holding about 1.1 to 1.2 million bales in stocks for future sales. Although the pace of exports has slowed down since February, export prospects during the remaining season will depend on international cotton prices. Assuming no change in the current price parity between local and international cotton, India's cotton exports are expected to reach 5.9 million bales, over 20 percent higher than last year.

SECTION II: Statistical Tables

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

				Final	Revised	Estimated	Estimated	Forecast
STATE		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Maharashtra	Area	2980	2800	2766	2840	2889	3070	3191
	Production	3425	2600	3100	5200	3600	5200	6200
	Yield	195	158	191	311	212	288	330
Gujarat	Area	1687	1634	1647	1906	2077	2390	2516
	Production	3250	3050	5000	7300	8900	10100	11500
	Yield	328	317	516	651	728	718	777
Madhya Pradesh	Area	623	545	591	576	600	639	662
	Production	2000	1800	1965	1600	1800	1800	2000
	Yield	546	561	565	472	510	479	514
Punjab	Area	600	449	452	509	557	607	648
	Production	925	750	1035	1650	2000	2600	2300
	Yield	262	284	389	551	610	728	603
Haryana	Area	610	519	526	621	583	530	478
	Production	550	875	1150	1550	1300	1600	1500
	Yield	153	287	372	424	379	513	533
Rajasthan	Area	347	386	344	438	472	350	368
	Production	700	500	915	1100	1100	800	850
	Yield	343	220	452	427	396	389	393
Andhra Pradesh	Area	1002	803	837	1178	1037	972	1096
	Production	2675	1975	2740	3250	3200	3500	4400
	Yield	454	418	557	469	525	612	682
Karnataka	Area	591	393	313	521	450	375	370
	Production	700	500	420	800	650	600	650
	Yield	201	216	228	261	246	272	299
Tamil Nadu	Area	200	85	103	129	136	122	124
	Production	500	300	375	550	550	500	500
	Yield	425	600	619	725	688	697	685
Others	Area	90	53	51	68	72	87	77
	Production	75	100	100	100	100	100	100
	Yield	142	321	333	250	236	195	221
Loose	Production	1000	1150	1100	1200	1200	1200	1200
All-India	Area	8730	7667	7630	8786	8873	9142	9530
	Production	15800	13600	17900	24300	24400	28000	31200
	Yield	308	302	399	470	467	521	557

Table 3: Month-end Prices of Popular Varieties (Prices in Rupees per metric tons)

Year	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2005/06						
Aug	35150	43030	43870	46680	56240	89430
Sep	35150	41620	44430	50620	53990	88580
Oct	36840	41900	46400	48650	53990	88580
Nov	40490	42740	47520	48930	57930	109670
Dec	39370	44150	47810	50620	63270	126540
Jan	37400	42460	47520	51180	62990	122330
Feb	36560	42740	46680	51180	62990	112490
Mar	35430	42460	46960	51180	61860	116700
Apr	39090	46400	47800	51740	61860	118100
May	37400	44990	45270	50330	58210	118100
Jun	39090	47240	47240	51460	57360	118100
July	41620	47800	50620	53710	57650	112480
2006/07						
Aug	41620	48930	52020	57360	60180	111070
Sep	41900	45830	50050	53150	59610	108260
Oct	41340	44990	48930	51740	58490	97010
Nov	40770	43310	48090	50330	73110	90000
Dec	39930	43590	47800	50330	73110	90000
Jan	37680	43300	48650	50620	58490	90000
Feb	41060	48090	51740	52870	61300	92800
Mar	41060	51740	53430	54830	62430	92800
Apr	41340	50330	51740	52300	61860	89980
May	42180	52300	52300	54270	61860	89980
June	42180	52580	52870	54270	61860	88580
July	44990	54830	56240	57360	63270	91390
2007/08						
Aug	43870	53150	55400	57360	63270	89980
Sept	43870	52020	56520	58490	63270	89980
Oct	42740	50050	53990	56240	63270	80140
Nov	47240	51740	52430	55120	58490	80140
Dec	47800	52870	54270	56520	59900	80140
Jan	47800	54550	56520	59050	61300	82670
Feb 25	47240	56800	59050	61860	63550	87170

Source: Cotton Association of India (earlier East India Cotton Association), Mumbai.

Table 4: Cotton Consumption by Mills and Small Sector Units by Month
(Figures in Million U.S. bales)

Month\Year	2004/05	2005/06	2006/07	2007/08
Aug	1.096	1.350	1.402	1.448
Sept	1.068	1.186	1.400	1.408
Oct	1.109	1.206	1.353	1.430
Nov	1.071	1.178	1.391	1.323
Dec	1.186	1.277	1.444	
Jan	1.129	1.281	1.423	
Feb	1.095	1.190	1.336	
Mar	1.184	1.342	1.436	
Apr	1.170	1.278	1.410	
May	1.206	1.312	1.397	
Jun	1.192	1.309	1.394	
Jul	1.218	1.361	1.438	
TOTAL	13.726	15.268	16.823	5.610

Source: The Textile Commissioner's Office, Ministry of Textile, Mumbai